

MORRIS COUNTY UNIFIED SCHOOL DISTRICT NO. 417

Council Grove, Kansas

STATUTORY BASIS FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITORS' REPORT

Year Ended June 30, 2011

ALDRICH AND COMPANY LLC  
CERTIFIED PUBLIC ACCOUNTANTS  
COUNCIL GROVE, KANSAS

Morris County Unified School District No. 417  
Council Grove, Kansas

STATUTORY BASIS FINANCIAL STATEMENTS  
For the Fiscal Year Ended June 30, 2011  
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Morris County Unified School District No. 417  
Council Grove, Kansas

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For the Fiscal Year Ended June 30, 2011  
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# ALDRICH & COMPANY, LLC

CERTIFIED PUBLIC ACCOUNTANTS

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## Independent Auditors' Report

Board of Education  
Morris County USD No. 417  
Council Grove, KS 66846

We have audited the accompanying statutory basis financial statements of Morris County Unified School District No. 417, Council Grove, Kansas as of and for the year ended June 30, 2011, as listed in the table of contents. These financial statements are the responsibility of Unified School District No. 417, Council Grove, Kansas management. Our responsibility is to express an opinion on these statutory basis financial statements based on our audit. The prior year partial comparative information has been derived from the District's June 30, 2010 financial statements and, in our report dated January 26, 2011, we expressed a qualified opinion on the respective financial statements, taken as a whole, on the statutory basis of accounting.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the guidance in the Kansas Municipal Audit Guide, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described more fully in Note 3, the financial statements report a cash receipt for the final state aid payment as of June 30th, even though the payment was actually received after June 30th. This is a departure from the basis of accounting required for financial statement presentations in accordance with the Kansas Municipal Audit Guide which requires that cash receipts be reported when received.

As described more fully in Note 2, USD 417 prepared these financial statements in conformity with the accounting practices prescribed by the State of Kansas to demonstrate compliance with the cash basis and budget laws of the State of Kansas which practices differ from accounting principles generally accepted in the United States of America. The effect on the financial statements of the variances between these regulatory accounting practices and accounting principles generally accepted in the United States of America, although not reasonable determinable is presumed to be material.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of USD 417, Council Grove, Kansas, as of June 30, 2011, the changes in its financial position, or, where applicable, its cash flows for the year then ended. Further, the Unified School District No. 417, Council Grove, Kansas has not presented a management's discussion and analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Also, in our opinion, except for the effects of the matter discussed above regarding the reporting of the final state aid payment, the financial statements referred to above present fairly, in all material respects, the cash and unencumbered cash balances of Unified School District No. 417, Council Grove, Kansas, as of June 30, 2011, and its cash receipts and expenditures, and budget to actual comparisons for the year then ended, taken as a whole, on the basis of accounting described in Note 2.

In accordance with Government Auditing Standards, we have also issued our report dated January 18, 2012, on our consideration of Unified School District 417's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Morris County USD 417, Council Grove, Kansas' financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

*Aldrich Company, LLC*

ALDRICH AND COMPANY LLC  
CERTIFIED PUBLIC ACCOUNTANTS

January 18, 2012

Morris County Unified School District No. 417  
Council Grove, Kansas

Statement 1

Summary of Cash Receipts, Expenditures, and Unencumbered Cash  
For the Fiscal Year Ended June 30, 2011

	Beginning Unencumbered Cash Balance	Prior Year Canceled Encumbrances	Cash Receipts	Expenditures	Ending Unencumbered Cash Balance	Add Outstanding Encumbrances and Accounts Payable	Ending Cash Balance
Governmental Type Funds							
General Fund	\$ 0	\$ 0	\$ 5,348,158	\$ 5,348,158	\$ 0	\$ 76,586	\$ 76,586
Supplemental General - L.O. B.	9,191	0	1,857,945	1,763,000	104,136	276,924	381,060
Special Revenue Funds							
At Risk Four Year Old	15,544	0	32,800	32,863	15,481	32	15,513
At Risk (K-12)	4,407	0	510,000	509,841	4,566		4,566
Bilingual Education	0	0	31,050	24,473	6,577	101	6,678
Vocational Education	21,523	0	155,620	130,369	46,774	8,418	55,192
Special Education	351,916	0	780,946	793,696	339,166		339,166
Food Service	135,131	0	489,870	461,255	163,746	17,693	181,439
Driver Training	38,787	0	16,054	11,818	43,023	1,500	44,523
Capital Outlay	720,716	0	130,599	176,477	674,838	91,901	766,739
Summer School	18,840	0	0	0	18,840		18,840
Professional Development	43,435	0	40,000	9,981	73,454		73,454
Extraordinary School Program	21,013	0	29,857	24,184	26,686		26,686
KPERS Retirement	0	0	339,133	339,133	0		0
Gifts and Grants	18,703	0	0	0	18,703		18,703
Textbook Rental	84,604	0	63,640	105,016	43,228	104,130	147,358
Contingency Reserve	288,285	0	20,000	0	308,285		308,285
Title I	0	0	128,423	128,423	0	7,066	7,066
Title IID - Educational Technology	0	0	435	435	0		0
Title IIA - Improving Teacher Quality	0	0	43,808	43,808	0		0
Rural Education	0	0	9,868	9,868	0		0
School Imp (1003a)	949	0	20,776	21,725	0	5,646	5,646
District Activity Funds	12,449	0	116,907	109,059	20,297		20,297
Debt Service Fund							
Bond & Interest	347,059	0	567,494	536,693	377,860		377,860
Capital Project Fund							
School Improvement Fund	2,218,462	0	17,493	139,725	2,096,230	25,550	2,121,780
Fiduciary Type Funds							
Private Purpose Trust Funds	11,653	0	9,900	6,115	15,438	0	15,438
Total Reporting Entity - (Excluding Agency Funds)	<u>\$ 4,362,667</u>	<u>\$ 0</u>	<u>\$ 10,760,776</u>	<u>\$ 10,726,115</u>	<u>\$ 4,397,328</u>	<u>\$ 615,547</u>	<u>\$ 5,012,875</u>

The notes to the financial statements are an integral part of this statement.

Morris County Unified School District No. 417  
Council Grove, Kansas

Statement 1(Cont)

Summary of Cash Receipts, Expenditures, and Unencumbered Cash  
For the Fiscal Year Ended June 30, 2011

Composition of Cash:

Petty Cash on Hand	
U.S.D. 417 Checking & Savings Accounts:	200
Farmers & Drovers Bank, Council Grove, Kansas	1,361,809
Farmers & Drovers Bank School Imp	2,121,780
Farmers State Bank, Dwight, Kansas	89,872
Alta Vista State Bank, Alta Vista, Kansas	113,258
Emprise Bank, Council Grove, Kansas	19,515
Activity Funds Checking Accounts:	
Farmers & Drovers Bank, Council Grove, Kansas	53,235
Farmers State Bank, Dwight, Kansas	1,827
Alta Vista State Bank, Alta Vista, Kansas	8,938
Certificates of Deposit:	
Farmers & Drovers Bank, Council Grove, Kansas	550,000
Farmers State Bank, Dwight, Kansas	250,000
Alta Vista State Bank, Alta Vista, Kansas	<u>480,000</u>
Total Cash	5,050,434
Less Agency Funds per Statement 4	<u>(37,559)</u>
Total Reporting Entity	<u>\$ 5,012,875</u>

The notes to the financial statements are an integral part of this statement.

Morris County Unified School District No. 417  
Council Grove, Kansas

Statement 2

Summary of Expenditures – Actual and Budget  
(Budgeted Funds Only)  
For the Fiscal Year Ended June 30, 2011

Governmental Type Funds	Certified Budget	Adjustment to Comply With Legal Max.	Adjustment for Qualifying Budget Credits	Total Budget for Comparison	Expenditures Chargeable to Current Year	Variance Favorable (Unfavorable)
General Fund	\$ 5,690,621	\$ (359,614)	\$ 17,151	\$ 5,348,158	\$ 5,348,158	\$ 0
Supplemental General - L.O.B.	1,763,000			1,763,000	1,763,000	0
Special Revenue Funds						
At Risk Four Year Old	45,544			45,544	32,863	12,681
At Risk (K-12)	512,716			512,716	509,841	2,875
Bilingual Education	31,050			31,050	24,473	6,577
Vocational Education	157,050			157,050	130,369	26,681
Special Education	1,262,709			1,262,709	793,696	469,013
Food Service	706,861			706,861	461,255	245,606
Driver Training	51,187			51,187	11,818	39,369
Capital Outlay	749,859			749,859	176,477	573,382
Summer School	18,840			18,840	0	18,840
Professional Development	43,435			43,435	9,981	33,454
Extraordinary School Program	39,323			39,323	24,184	15,139
KPERS Retirement	466,906			466,906	339,133	127,773
Gifts and Grants	18,703			18,703	0	18,703
Bond Service Fund						
Bond & Interest	536,692			536,692	536,693	(1)

The notes to the financial statements are an integral part of this statement.



Morris County Unified School District No. 417  
Council Grove, Kansas

Statement 3 (Cont.)

Statement of Cash Receipts and Expenditures – Actual and Budget  
For the Fiscal Year Ended June 30, 2011  
(With Comparative Actual Totals for the Prior Year Ended June 30, 2010)

GENERAL FUND				
	Prior Year Actual	Current Year		Variance Favorable (Unfavorable)
		Actual	Budget	
Cash Receipts				
Local Sources				
Ad Valorem Current Tax	\$ 907,651	\$ 964,380	\$ 909,884	\$ 54,496
Delinquent Tax	7,467	17,914	14,419	3,495
Mineral Production Tax	599	1,761	0	1,761
Miscellaneous Income	20,420	17,151	0	17,151
State Sources				
General State Aid	3,710,768	3,495,441	3,899,827	(404,386)
Special Education Aid	603,734	580,946	768,139	(187,193)
ARRA Stabilization	273,041	98,352	98,352	0
Education Jobs Funds	0	172,213	0	172,213
Total Cash Receipts	<u>5,523,680</u>	<u>5,348,158</u>	<u>5,690,621</u>	<u>(342,463)</u>
Expenditures				
Instruction	3,039,328	2,790,799	2,915,701	124,902
Student Support Services	194,041	170,512	157,654	(12,858)
Instruction Support Staff	112,617	115,199	120,903	5,704
General Administration	162,981	211,853	211,106	(747)
School Administration	428,152	528,440	527,169	(1,271)
Operations & Maintenance	5,314	0	0	0
Student Transportation Services	22,593	25,042	25,100	58
Vehicle Operating Services	191,681	207,511	203,800	(3,711)
Vehicle Services & Maintenance Services	41,014	45,785	45,690	(95)
Other Supplemental Service	42,733	48,460	46,000	(2,460)
Fund Transfers				0
Bilingual Education	0	31,050	31,050	0
Capital Outlay	0	37,561	100,000	62,439
Special Education	604,450	580,946	768,139	187,193
Extraordinary School Program	10,000	0	0	0
Food Service	8,991	0	0	0
Professional Development	20,000	0	0	0
Contingency Reserve	0	20,000	0	(20,000)
At Risk (4 yr old)	31,635	25,000	30,000	5,000
At Risk (K-12)	608,150	510,000	508,309	(1,691)
Adjustment to Comply with Legal Max	0	0	(359,614)	(359,614)
Legal General Fund Budget	<u>5,523,680</u>	<u>5,348,158</u>	<u>5,331,007</u>	<u>(17,151)</u>
Adjustment for Qualifying Budget Credits	<u>0</u>	<u>0</u>	<u>17,151</u>	<u>17,151</u>
Total Expenditures & Transfers	<u>5,523,680</u>	<u>5,348,158</u>	<u>\$ 5,348,158</u>	<u>\$ 0</u>
Receipts Over (Under) Expenditures	0	0		
Unencumbered Cash, July 1	<u>0</u>	<u>0</u>		
Unencumbered Cash, June 30	<u>\$ 0</u>	<u>\$ 0</u>		

The notes to the financial statements are an integral part of this statement.

Morris County Unified School District No. 417  
Council Grove, Kansas

Statement 3-1(Cont.)

Statement of Cash Receipts and Expenditures – Actual and Budget  
For the Fiscal Year Ended June 30, 2011  
(With Comparative Actual Totals for the Prior Year Ended June 30, 2010)

SUPPLEMENTAL GENERAL – LOCAL OPTION BUDGET

	Prior Year Actual	Current Year		Variance Favorable (Unfavorable)
		Actual	Budget	
Cash Receipts				
Local Sources				
Ad Valorem Current Tax	\$ 1,009,742	\$ 1,273,412	\$ 1,178,942	\$ 94,470
Delinquent Tax	7,688	20,817	16,155	4,662
Motor Vehicle Tax	75,809	98,132	102,936	(4,804)
16-20M Truck Tax	5,817	6,614	0	6,614
Recreational Vehicle Tax	2,220	2,795	2,925	(130)
Reimbursements	0	4,800	0	4,800
State Sources				
Supplemental State Aid	353,266	451,375	452,851	(1,476)
ARRA	120,025	0	0	0
Total Cash Receipts	<u>1,574,567</u>	<u>1,857,945</u>	<u>1,753,809</u>	<u>104,136</u>
Expenditures				
Instruction	272,109	207,369	374,200	166,831
Student Support Services	1,224	2,831	2,000	(831)
Instructional Support	5,071	7,383	5,900	(1,483)
General Administration	46,684	41,295	49,100	7,805
School Administration	127,060	9,363	11,900	2,537
Operations & Maintenance	590,469	768,991	647,458	(121,533)
Vehicle Operating Services	73,230	167,143	79,200	(87,943)
Other Supplemental Service	2,804	3,298	187,715	184,417
Fund Transfers				
Extraordinary School Program	5,000	7,000	5,000	(2,000)
Vocational Education	186,776	155,527	135,527	(20,000)
Food Service	58,573	100,000	55,000	(45,000)
Professional Development	22,000	40,000	0	(40,000)
At Risk Four Year Old	0	7,800	0	(7,800)
Drivers Education	0	5,000	0	(5,000)
Textbook & Materials	0	40,000	0	(40,000)
Special Education	209,000	200,000	210,000	10,000
Total Expenditures	<u>1,600,000</u>	<u>1,763,000</u>	<u>\$ 1,763,000</u>	<u>\$ 0</u>
Receipts Over (Under) Expenditures	(25,433)	94,945		
Unencumbered Cash, July 1	<u>34,624</u>	<u>9,191</u>		
Unencumbered Cash, June 30	<u>\$ 9,191</u>	<u>\$ 104,136</u>		

The notes to the financial statements are an integral part of this statement.

Morris County Unified School District No. 417  
Council Grove, Kansas

Statement 3-2

Statement of Cash Receipts and Expenditures - Actual and Budget  
For the Fiscal Year Ended June 30, 2011  
(With Comparative Actual Totals for the Prior Year Ended June 30, 2010)

AT RISK FOUR YEAR OLD

	Prior Year Actual	Current Year		Variance Favorable (Unfavorable)
		Actual	Budget	
Cash Receipts				
Transfer from General	\$ 31,635	\$ 25,000	\$ 0	\$ 25,000
Transfer from Supplemental General	0	7,800	0	7,800
Total Cash Receipts	<u>31,635</u>	<u>32,800</u>	<u>0</u>	<u>32,800</u>
Expenditures				
Instruction	<u>27,237</u>	<u>32,863</u>	<u>45,544</u>	<u>12,681</u>
Total Expenditures	<u>27,237</u>	<u>32,863</u>	<u>\$ 45,544</u>	<u>\$ 12,681</u>
Receipts Over (Under) Expenditures	4,398	(63)		
Unencumbered Cash, July 1	<u>11,146</u>	<u>15,544</u>		
Unencumbered Cash, June 30	<u>\$ 15,544</u>	<u>\$ 15,481</u>		

The notes to the financial statements are an integral part of this statement.

Morris County Unified School District No. 417  
Council Grove, Kansas

Statement 3-3

Statement of Cash Receipts and Expenditures - Actual and Budget  
For the Fiscal Year Ended June 30, 2011  
(With Comparative Actual Totals for the Prior Year Ended June 30, 2010)

AT RISK (K - 12)

	Prior Year Actual	Current Year		Variance Favorable (Unfavorable)
		Actual	Budget	
Cash Receipts				
Transfer from General	\$ 608,150	\$ 510,000	\$ 508,309	\$ 1,691
Transfer from Supplemental General	0	0	0	0
Total Cash Receipts	<u>608,150</u>	<u>510,000</u>	<u>508,309</u>	<u>1,691</u>
Expenditures				
Instruction	617,328	509,841	512,716	2,875
Total Expenditures	<u>617,328</u>	<u>509,841</u>	<u>\$ 512,716</u>	<u>\$ 2,875</u>
Receipts Over (Under) Expenditures	(9,178)	159		
Unencumbered Cash, July 1	<u>13,585</u>	<u>4,407</u>		
Unencumbered Cash, June 30	<u>\$ 4,407</u>	<u>\$ 4,566</u>		

The notes to the financial statements are an integral part of this statement.

Morris County Unified School District No. 417  
Council Grove, Kansas

Statement 3-4

Statement of Cash Receipts and Expenditures - Actual and Budget  
For the Fiscal Year Ended June 30, 2011  
(With Comparative Actual Totals for the Prior Year Ended June 30, 2010)

BILINGUAL EDUCATION

	Prior Year Actual	Current Year		Variance Favorable (Unfavorable)
		Actual	Budget	
Cash Receipts				
Transfer from General	\$ 0	\$ 31,050	\$ 3,150	\$ 27,900
Transfer from Supplemental General	0	0	0	0
Total Cash Receipts	0	31,050	3,150	27,900
Expenditures				
Instruction	0	24,473	31,050	6,577
Total Expenditures	0	24,473	\$ 31,050	\$ 6,577
Receipts Over (Under) Expenditures	0	6,577		
Unencumbered Cash, July 1	0	0		
Unencumbered Cash, June 30	\$ 0	\$ 6,577		

The notes to the financial statements are an integral part of this statement.

Morris County Unified School District No. 417  
Council Grove, Kansas

Statement 3-5

Statement of Cash Receipts and Expenditures - Actual and Budget  
For the Fiscal Year Ended June 30, 2011  
(With Comparative Actual Totals for the Prior Year Ended June 30, 2010)

VOCATIONAL EDUCATION FUND

	Prior Year Actual	Current Year		Variance Favorable (Unfavorable)
		Actual	Budget	
Cash Receipts				
Transfer from General	\$ 0	\$ 0	\$ 0	\$ 0
Transfer from Supplemental General	186,776	155,527	135,527	20,000
Other Local Revenue	5,737	93	0	93
Total Cash Receipts	<u>192,513</u>	<u>155,620</u>	<u>135,527</u>	<u>20,093</u>
Expenditures				
Instruction	<u>182,665</u>	<u>130,369</u>	<u>157,050</u>	<u>26,681</u>
Total Expenditures	<u>182,665</u>	<u>130,369</u>	<u>\$ 157,050</u>	<u>\$ 26,681</u>
Receipts Over (Under) Expenditures	9,848	25,251		
Unencumbered Cash, July 1	<u>11,675</u>	<u>21,523</u>		
Unencumbered Cash, June 30	<u>\$ 21,523</u>	<u>\$ 46,774</u>		

The notes to the financial statements are an integral part of this statement.

Morris County Unified School District No. 417  
Council Grove, Kansas

Statement 3-6

Statement of Cash Receipts and Expenditures - Actual and Budget  
For the Fiscal Year Ended June 30, 2011  
(With Comparative Actual Totals for the Prior Year Ended June 30, 2010)

SPECIAL EDUCATION FUND

	Prior Year Actual	Current Year		Variance Favorable (Unfavorable)
		Actual	Budget	
Cash Receipts				
Transfer from General	\$ 604,450	\$ 580,946	\$ 768,139	\$ (187,193)
Transfer from Supplemental General	209,000	200,000	210,000	(10,000)
Other Local Revenues	309	0	0	0
Total Cash Receipts	<u>813,759</u>	<u>780,946</u>	<u>978,139</u>	<u>(197,193)</u>
Expenditures				
Instruction	808,252	742,433	1,211,139	468,706
Student Transportation	48,494	51,263	51,570	307
Total Expenditures	<u>856,746</u>	<u>793,696</u>	<u>\$ 1,262,709</u>	<u>\$ 469,013</u>
Receipts Over (Under) Expenditures	(42,987)	(12,750)		
Unencumbered Cash, July 1	<u>394,903</u>	<u>351,916</u>		
Unencumbered Cash, June 30	<u>\$ 351,916</u>	<u>\$ 339,166</u>		

The notes to the financial statements are an integral part of this statement.

Morris County Unified School District No. 417  
Council Grove, Kansas

Statement 3-7

Statement of Cash Receipts and Expenditures - Actual and Budget  
For the Fiscal Year Ended June 30, 2011  
(With Comparative Actual Totals for the Prior Year Ended June 30, 2010)

FOOD SERVICE FUND

	Prior Year Actual	Current Year		Variance Favorable (Unfavorable)
		Actual	Budget	
Cash Receipts				
Intergovernmental Receipts				
Federal Aid	\$ 200,005	\$ 192,337	\$ 259,330	\$ (66,993)
State Aid	4,663	4,588	5,390	(802)
Food Service				
Student Sales	184,920	176,560	259,650	(83,090)
Adult & Student (non-reimbursement)	16,726	16,325	26,230	(9,905)
Miscellaneous	81	60	0	60
Transfer from General	8,991	0	0	0
Transfer from Supplemental General	58,573	100,000	55,000	45,000
Total Cash Receipts	<u>473,959</u>	<u>489,870</u>	<u>605,600</u>	<u>(115,730)</u>
Expenditures				
Operations & Maintenance	9,867	10,834	215,346	204,512
Food Service Operation	461,496	450,421	491,515	41,094
Total Expenditures	<u>471,363</u>	<u>461,255</u>	<u>\$ 706,861</u>	<u>\$ 245,606</u>
Receipts Over (Under) Expenditures	2,596	28,615		
Unencumbered Cash, July 1	132,535	135,131		
Unencumbered Cash, June 30	<u>\$ 135,131</u>	<u>\$ 163,746</u>		

The notes to the financial statements are an integral part of this statement.



Morris County Unified School District No. 417  
Council Grove, Kansas

Statement 3-8

Statement of Cash Receipts and Expenditures - Actual and Budget  
For the Fiscal Year Ended June 30, 2011  
(With Comparative Actual Totals for the Prior Year Ended June 30, 2010)

DRIVER TRAINING FUND

	Prior Year Actual	Current Year		Variance Favorable (Unfavorable)
		Actual	Budget	
Cash Receipts				
State Driver Training	\$ 2,200	\$ 3,404	\$ 4,900	\$ (1,496)
Payments from Individuals	7,350	7,650	7,500	150
Transfer from Supplemental General	0	5,000	0	5,000
Total Cash Receipts	<u>9,550</u>	<u>16,054</u>	<u>12,400</u>	<u>3,654</u>
Expenditures				
Instruction	4,704	8,191	23,750	15,559
Vehicle Operations & Maintenance	<u>1,776</u>	<u>3,627</u>	<u>27,437</u>	<u>23,810</u>
Total Expenditures	<u>6,480</u>	<u>11,818</u>	<u>\$ 51,187</u>	<u>\$ 39,369</u>
Receipts Over (Under) Expenditures	3,070	4,236		
Unencumbered Cash, July 1	<u>35,717</u>	<u>38,787</u>		
Unencumbered Cash, June 30	<u>\$ 38,787</u>	<u>\$ 43,023</u>		

The notes to the financial statements are an integral part of this statement.

Morris County Unified School District No. 417  
Council Grove, Kansas

Statement 3-9

Statement of Cash Receipts and Expenditures - Actual and Budget  
For the Fiscal Year Ended June 30, 2011  
(With Comparative Actual Totals for the Prior Year Ended June 30, 2010)

CAPITAL OUTLAY

	Prior Year Actual	Current Year		Variance Favorable (Unfavorable)
		Actual	Budget	
Cash Receipts				
General Property Tax				
Ad Valorem Current Tax	\$ 104,063	\$ 4,646	\$ 6,416	\$ (1,770)
Delinquent Tax	2,155	4,215	1,616	2,599
Motor Vehicle Tax	20,748	19,331	20,528	(1,197)
16-20M Truck Tax	1,640	1,703	0	1,703
Recreational Vehicle Tax	608	540	583	(43)
Interest on Idle Funds	51,840	24,088	0	24,088
Other Local Revenues	37,709	38,225	0	38,225
Federal Aid - Flood Allocation	369	290	0	290
Transfer from General Fund	0	37,561	100,000	(62,439)
Total Cash Receipts	<u>219,132</u>	<u>130,599</u>	<u>129,143</u>	<u>1,456</u>
Expenditures				
Property & Equipment	7,298	110,643	407,500	296,857
Building Improvements	142,224	65,834	342,359	276,525
Total Expenditures	<u>149,522</u>	<u>176,477</u>	<u>\$ 749,859</u>	<u>\$ 573,382</u>
Receipts Over (Under) Expenditures	69,610	(45,878)		
Unencumbered Cash, July 1	651,106	720,716		
Unencumbered Cash, June 30	<u>\$ 720,716</u>	<u>\$ 674,838</u>		

The notes to the financial statements are an integral part of this statement.

Morris County Unified School District No. 417  
Council Grove, Kansas

Statement 3-10

Statement of Cash Receipts and Expenditures - Actual and Budget  
For the Fiscal Year Ended June 30, 2011  
(With Comparative Actual Totals for the Prior Year Ended June 30, 2010)

SUMMER SCHOOL

	Prior Year Actual	Current Year		Variance Favorable (Unfavorable)
		Actual	Budget	
Cash Receipts				
Fees	\$ 620	\$ 0	\$ 0	\$ 0
Transfer from Supplemental General	0	0	0	0
Total Cash Receipts	<u>620</u>	<u>0</u>	<u>0</u>	<u>0</u>
Expenditures				
Instruction	660	0	17,780	17,780
Operations & Maintenance	0	0	200	200
Student Transportation	0	0	860	860
Total Expenditures	<u>660</u>	<u>0</u>	<u>\$ 18,840</u>	<u>\$ 18,840</u>
Receipts Over (Under) Expenditures	(40)	0		
Unencumbered Cash, July 1	<u>18,880</u>	<u>18,840</u>		
Unencumbered Cash, June 30	<u>\$ 18,840</u>	<u>\$ 18,840</u>		

The notes to the financial statements are an integral part of this statement.

Morris County Unified School District No. 417  
Council Grove, Kansas

Statement 3-11

Statement of Cash Receipts and Expenditures - Actual and Budget  
For the Fiscal Year Ended June 30, 2011  
(With Comparative Actual Totals for the Prior Year Ended June 30, 2010)

PROFESSIONAL DEVELOPMENT

	Prior Year Actual	Current Year		Variance Favorable (Unfavorable)
		Actual	Budget	
Cash Receipts				
State Inservice Aid	\$ 0	\$ 0	\$ 0	\$ 0
Transfer from General	20,000	0	0	0
Transfer from Supplemental General	22,000	40,000	0	40,000
Total Receipts	<u>42,000</u>	<u>40,000</u>	<u>0</u>	<u>40,000</u>
Expenditures				
Instructional Support Staff	21,460	9,981	43,435	33,454
Other Supplemental Services	0	0	0	0
Total Expenditures	<u>21,460</u>	<u>9,981</u>	<u>\$ 43,435</u>	<u>\$ 33,454</u>
Receipts Over (Under) Expenditures	20,540	30,019		
Unencumbered Cash, July 1	<u>22,895</u>	<u>43,435</u>		
Unencumbered Cash, June 30	<u>\$ 43,435</u>	<u>\$ 73,454</u>		

The notes to the financial statements are an integral part of this statement.

Morris County Unified School District No. 417  
Council Grove, Kansas

Statement 3-12

Statement of Cash Receipts and Expenditures - Actual and Budget  
For the Fiscal Year Ended June 30, 2011  
(With Comparative Actual Totals for the Prior Year Ended June 30, 2010)

EXTRAORDINARY SCHOOL PROGRAM

	Prior Year Actual	Current Year		Variance Favorable (Unfavorable)
		Actual	Budget	
Cash Receipts				
Enrollment Fees	\$ 22,067	\$ 20,643	\$ 29,000	\$ (8,357)
JJA Grant	3,750	0	0	0
Grants & Donations	1,990	2,214	0	2,214
Transfer from General	10,000	0	0	0
Transfer from Supplemental General	5,000	7,000	5,000	2,000
Total Receipts	<u>42,807</u>	<u>29,857</u>	<u>34,000</u>	<u>(4,143)</u>
Expenditures				
Instruction	36,850	24,184	39,323	15,139
Total Expenditures	<u>36,850</u>	<u>24,184</u>	<u>\$ 39,323</u>	<u>\$ 15,139</u>
Receipts Over (Under) Expenditures	5,957	5,673		
Unencumbered Cash, July 1	<u>15,056</u>	<u>21,013</u>		
Unencumbered Cash, June 30	<u>\$ 21,013</u>	<u>\$ 26,686</u>		

The notes to the financial statements are an integral part of this statement.

Morris County Unified School District No. 417  
Council Grove, Kansas

Statement 3-13

Statement of Cash Receipts and Expenditures – Actual and Budget  
For the Fiscal Year Ended June 30, 2011  
(With Comparative Actual Totals for the Prior Year Ended June 30, 2010)

KPERS RETIREMENT

	Prior Year Actual	Current Year		Variance Favorable (Unfavorable)
		Actual	Budget	
Cash Receipts				
State of Kansas KPERS	\$ 395,683	\$ 339,133	\$ 466,906	\$ (127,773)
Total Cash Receipts	<u>395,683</u>	<u>339,133</u>	<u>466,906</u>	<u>(127,773)</u>
Expenditures				
KPERS Retirement Contribution				
Instructional Employees	274,604	235,358	324,032	88,674
Student Support	13,849	11,870	16,342	4,472
Instructional Support	7,914	6,783	9,338	2,555
General Administration	12,266	10,513	14,474	3,961
School Administration	41,151	35,270	48,558	13,288
Other Supplemental Services	3,957	3,391	4,669	1,278
Operations & Maintenance	21,763	18,652	25,680	7,028
Student Transportation	5,935	5,087	7,004	1,917
Food Service	14,244	12,209	16,809	4,600
Total Expenditures	<u>395,683</u>	<u>339,133</u>	<u>\$ 466,906</u>	<u>\$ 127,773</u>
Receipts Over (Under) Expenditures	0	0		
Unencumbered Cash, July 1	<u>0</u>	<u>0</u>		
Unencumbered Cash, June 30	<u>\$ 0</u>	<u>\$ 0</u>		

The notes to the financial statements are an integral part of this statement.

Morris County Unified School District No. 417  
Council Grove, Kansas

Statement 3-14

Statement of Cash Receipts and Expenditures – Actual and Budget  
For the Fiscal Year Ended June 30, 2011  
(With Comparative Actual Totals for the Prior Year Ended June 30, 2010)

GIFTS AND GRANTS

	Prior Year Actual	Current Year		Variance Favorable (Unfavorable)
		Actual	Budget	
Cash Receipts				
Contributions & Donations	\$ 7,166	\$ 0	\$ 0	\$ 0
Total Cash Receipts	<u>7,166</u>	<u>0</u>	<u>0</u>	<u>0</u>
Expenditures				
Supplies	300	0	18,703	18,703
Total Expenditures	<u>300</u>	<u>0</u>	<u>\$ 18,703</u>	<u>\$ 18,703</u>
Receipts Over (Under) Expenditures	6,866	0		
Unencumbered Cash, July 1	<u>11,837</u>	<u>18,703</u>		
Unencumbered Cash, June 30	<u>\$ 18,703</u>	<u>\$ 18,703</u>		

The notes to the financial statements are an integral part of this statement.

Morris County Unified School District No. 417  
Council Grove, Kansas

Statement 3-15

Statement of Cash Receipts and Expenditures  
For the Fiscal Year Ended June 30, 2011  
(With Comparative Actual Totals for the Prior Year Ended June 30, 2010)

TEXTBOOK RENTAL FUND

	Prior Year Actual	Current Year Actual
Cash Receipts		
Student Receipts	\$ 21,516	\$ 23,640
Transfer from General	0	40,000
Total Cash Receipts	<u>21,516</u>	<u>63,640</u>
Expenditures		
Textbooks & Materials	15,312	105,016
Other	0	0
Total Expenditures	<u>15,312</u>	<u>105,016</u>
Receipts Over (Under) Expenditures	6,204	(41,376)
Unencumbered Cash, July 1	<u>78,400</u>	<u>84,604</u>
Unencumbered Cash, June 30	<u>\$ 84,604</u>	<u>\$ 43,228</u>

Statement 3-16

CONTINGENCY RESERVE

	Prior Year Actual	Current Year Actual
Cash Receipts		
Transfer In	\$ 0	\$ 20,000
Total Cash Receipts	<u>0</u>	<u>20,000</u>
Expenditures		
Other	0	0
Total Expenditures	<u>0</u>	<u>0</u>
Receipts Over (Under) Expenditures	0	20,000
Unencumbered Cash, July 1	<u>288,285</u>	<u>288,285</u>
Unencumbered Cash, June 30	<u>\$ 288,285</u>	<u>\$ 308,285</u>

The notes to the financial statements are an integral part of this statement.



Morris County Unified School District No. 417  
Council Grove, Kansas

Statement 3-17

Statement of Cash Receipts and Expenditures  
For the Fiscal Year Ended June 30, 2011

FEDERAL GRANTS

	<u>Title I</u>	<u>Title II D Education Technology</u>	<u>Title II A Teacher Quality</u>	<u>Rural Education</u>	<u>1003a School Improvement</u>
Cash Receipts					
Intergovernmental	\$ 128,423	\$ 435	\$ 43,808	\$ 9,868	\$ 20,776
Other	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Cash Receipts	<u>128,423</u>	<u>435</u>	<u>43,808</u>	<u>9,868</u>	<u>20,776</u>
Expenditures					
Instruction	<u>128,423</u>	<u>435</u>	<u>43,808</u>	<u>9,868</u>	<u>21,725</u>
Total Expenditures	<u>128,423</u>	<u>435</u>	<u>43,808</u>	<u>9,868</u>	<u>21,725</u>
Receipts Over (Under) Expenditures	0	0	0	0	(949)
Unencumbered Cash, July 1	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>949</u>
Unencumbered Cash, June 30	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

The notes to the financial statements are an integral part of this statement.

Morris County Unified School District No. 417  
Council Grove, Kansas

Statement 3-18

Statement of Cash Receipts and Expenditures - Actual and Budget  
For the Fiscal Year Ended June 30, 2011  
(With Comparative Actual Totals for the Prior Year Ended June 30, 2010)

BOND AND INTEREST FUND

	Prior Year Actual	Current Year		Variance Favorable (Unfavorable)
		Actual	Budget	
Cash Receipts				
General Property Taxes				
Ad Valorem Tax	\$ 393,009	\$ 459,792	\$ 436,189	\$ 23,603
Delinquent Tax	1,847	6,408	6,246	162
Motor Vehicle (includes 16/20M tax)	11,866	47,844	46,810	1,034
Recreational Vehicle	330	1,263	1,330	(67)
Intergovernmental				
State Aid	65,680	52,187	59,036	(6,849)
Total Cash Receipts	<u>472,732</u>	<u>567,494</u>	<u>549,611</u>	<u>17,883</u>
Expenditures				
Principal	105,000	100,000	100,000	0
Interest	442,330	436,693	436,692	(1)
Commission & Postage	0	0	0	0
Total Expenditures	<u>547,330</u>	<u>536,693</u>	<u>\$ 536,692</u>	<u>\$ (1)</u>
Receipts Over (Under) Expenditures	(74,598)	30,801		
Unencumbered Cash, July 1	<u>421,657</u>	<u>347,059</u>		
Unencumbered Cash, June 30	<u>\$ 347,059</u>	<u>\$ 377,860</u>		

The notes to the financial statements are an integral part of this statement.

Morris County Unified School District No. 417  
Council Grove, Kansas

Statement 3-19

Statement of Cash Receipts and Expenditures  
For the Fiscal Year Ended June 30, 2011  
(With Comparative Actual Totals for the Prior Year Ended June 30, 2010)

SCHOOL IMPROVEMENT FUND

	Prior Year Actual	Current Year Actual
Cash Receipts		
Bond Proceeds	\$ 0	\$ 0
Investment Income	82,012	17,493
Total Cash Receipts	<u>82,012</u>	<u>17,493</u>
Expenditures		
Purchased Professional & Technical Services	10,897	0
Architectural & Engineering	87,600	50,524
New Building Construction	600,985	0
Other Bond Expenses	53,249	89,201
Total Expenditures	<u>752,731</u>	<u>139,725</u>
Receipts Over (Under) Expenditures	(670,719)	(122,232)
Unencumbered Cash, July 1	<u>2,889,181</u>	<u>2,218,462</u>
Unencumbered Cash, June 30	<u>\$ 2,218,462</u>	<u>\$ 2,096,230</u>

The notes to the financial statements are an integral part of this statement.

Morris County Unified School District No. 417  
Council Grove, Kansas

Statement 3-20

Statement of Cash Receipts and Expenditures  
For the Fiscal Year Ended June 30, 2011  
(With Comparative Actual Totals for the Prior Year Ended June 30, 2010)

PRIVATE PURPOSE TRUST FUNDS

	Prior Year Actual	Current Year Actual
Cash Receipts		
Donations & Memorials	\$ 3,542	\$ 9,900
Expenditures		
Student Activities	1,129	6,115
Excess of Receipts Over (Under) Expenditures	2,413	3,785
Unencumbered Cash, July 1	9,240	11,653
Unencumbered Cash, June 30	\$ 11,653	\$ 15,438

The notes to the financial statements are an integral part of this statement.

Morris County Unified School District No. 417  
Council Grove, Kansas

Statement 4

Statement of Cash Receipts and Cash Disbursements  
For the Fiscal Year Ended June 30, 2011

AGENCY FUNDS

	Cash Balance 7/1/2010	Receipts	Disbursements	Cash Balance 6/30/2011
Student Organization Accounts				
Council Grove Elementary/Middle School				
Pep Club	\$ 91	\$ 0	\$ 0	\$ 91
Student Council	3,374	130	929	2,575
8th Grade	0	2,842	2,842	0
7th Grade	0	620	0	620
K-6th Grade	620	4,316	3,250	1,686
Band	783	3,540	3,575	748
Honor Choir	79	484	302	261
Cheerleaders	365	2,197	2,147	415
P.T.O. Student Assistance	586	5,947	4,671	1,862
Council Grove High School				
Seniors	1,726	1,496	968	2,254
Juniors	1,175	7,386	7,716	845
Sophomores	639	387	0	1,026
Freshman	0	1,145	1,145	0
Band	312	534	613	233
F.F.A.	(167)	43,546	42,887	492
F.F.A. - Sigle Memorial	1,374	0	1,374	0
F.C.A.	476	285	552	209
Kayettes	515	2,134	1,980	669
C.G. Club	0	0	0	0
F.B.L.A.	962	5,909	5,088	1,783
F.C.C.L.A.	2,110	9	0	2,119
F.A.C.S.	4	0	0	4
Art Club	1,409	1,483	2,081	811
Spanish Club	51	307	339	19
Student Senate	1,634	14,224	14,265	1,593
Key Club	780	1,938	1,773	945
Technology Club	136	223	82	277
Yearbook (Annual)	6,598	10,839	12,760	4,677
Trail Blazer	213	141	0	354
Cheerleaders	1,437	2,309	3,122	624
National Honor Society	823	1,460	1,942	341
Bravettes	2,517	6,584	8,875	226
Prairie Production	136	80	45	171
Scholars Bowl	(115)	1,621	958	548
Brave Voices	1,830	3,076	3,067	1,839
Helium Balloons	424	2	0	426
Library	0	915	915	0
CG Players	2,078	3,145	3,826	1,397
Total Forward	\$ 34,975	\$ 131,254	\$ 134,089	\$ 32,140

The notes to the financial statements are an integral part of this statement.

Morris County Unified School District No. 417  
Council Grove, Kansas

Statement 4 (Cont.)

Statement of Cash Receipts and Cash Disbursements  
For the Fiscal Year Ended June 30, 2011

AGENCY FUNDS

	Cash Balance 7/1/2010	Receipts	Disbursements	Cash Balance 6/30/2011
Total Brought Forward	\$ 34,975	\$ 131,254	\$ 134,089	\$ 32,140
Prairie Heights Elementary				
Student Council	1,143	195	0	1,338
Classes	0	66	66	0
Prairie Heights Middle School				
Pep Club	435	4	100	339
8th Grade	1,657	908	1,210	1,355
1 - 6th Grade	76	0	0	76
Band	887	77	14	950
Student Council	1,126	2,996	2,885	1,237
Total Student Organization Funds	<u>\$ 40,299</u>	<u>\$ 135,500</u>	<u>\$ 138,364</u>	<u>\$ 37,435</u>
Clearing Funds				
Council Grove Elementary/Middle School	\$ 0	\$ 0	\$ 0	\$ 0
Council Grove High School	0	4,601	4,601	0
Prairie Heights Elementary School	1	81	76	6
Prairie Heights Middle School	<u>1</u>	<u>398</u>	<u>281</u>	<u>118</u>
Total Clearing Funds	<u>\$ 2</u>	<u>\$ 5,080</u>	<u>\$ 4,958</u>	<u>\$ 124</u>
Total Agency Funds	<u>\$ 40,301</u>	<u>\$ 140,580</u>	<u>\$ 143,322</u>	<u>\$ 37,559</u>

The notes to the financial statements are an integral part of this statement.

Morris County Unified School District No. 417  
Council Grove, Kansas

Statement 5

Statement of Cash Receipts, Expenditures, and Unencumbered Cash  
For the Fiscal Year Ended June 30, 2011

DISTRICT ACTIVITY FUNDS

	Beginning Unencumbered Cash Balance	Cash Receipts	Expenditures	Ending Unencumbered Cash Balance	Add Outstanding Encumbrances and Accounts Payable	Ending Cash Balance
Gate Receipts						
CGMS Student Athletics	\$ 1,703	\$ 17,365	\$ 17,041	\$ 2,027	\$ 0	\$ 2,027
CGHS Student Athletics	5,774	81,911	78,489	9,196	0	9,196
PHMS Student Athletics	4,293	3,317	2,850	4,760	0	4,760
Total Gate Receipts	<u>11,770</u>	<u>102,593</u>	<u>98,380</u>	<u>15,983</u>	<u>0</u>	<u>15,983</u>
School Projects						
Council Grove High School						
Vo-Ag	0	11,207	8,924	2,283	0	2,283
Art	679	3,107	1,755	2,031	0	2,031
Total School Projects	<u>679</u>	<u>14,314</u>	<u>10,679</u>	<u>4,314</u>	<u>0</u>	<u>4,314</u>
Total District Activity Funds	<u>\$ 12,449</u>	<u>\$ 116,907</u>	<u>\$ 109,059</u>	<u>\$ 20,297</u>	<u>\$ 0</u>	<u>\$ 20,297</u>

The notes to the financial statements are an integral part of this statement.

Morris County Unified School District No. 417  
Council Grove, Kansas

NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2011

NOTE 1 - FUND DESCRIPTIONS

In governmental accounting, a fund is defined as an independent fiscal and accounting entity with a self-balancing set of accounts recording cash, and other financial resources, together with all related expenditures and residual cash balances, and changes within, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.

The following types of funds comprise the financial activities of the District.

Governmental Funds

General and Supplemental General Fund--to account for all unrestricted resources except those required to be accounted for in another fund.

Special Revenue Funds--to account for the proceeds of specific revenue sources (other than major capital projects) that are restricted by law or administrative action to expenditure for specified purposes.

Debt Service Fund--to account for the accumulation of resources for and payment of general long-term debt principal, interest and related costs.

Capital Project Fund--to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds or in trust funds.)

Fiduciary Funds

Trust and Agency Funds--to account for assets held in a trustee capacity or as an agent for individuals, other governmental units, private organizations, and/or other funds. These include Private Purpose Trust Funds and Agency Funds.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

Unified School District No. 417 was organized in accordance with State Statutes to provide a system of public education to elementary through high school students, which reside within the designated District areas. USD No. 417 is a municipal corporation governed by an elected seven member board of education. Governmental accounting standards define the financial reporting entity as a primary government, organizations for which the primary government is financially accountable, and other organizations for which the nature and significance of their relationship with the primary government is such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The basic criterion for including a potential component unit organization within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to the selection of governing authority, the designation of management, the ability to significantly influence operations, accountability for fiscal matters or the existence of special financing relationships. Based on the foregoing criteria, no financial statements of any other entity are included in the accompanying financial statements. The District does participate with other Districts in the Flint Hills Special Education Cooperative, which is administered by USD 253, Emporia, Kansas. The extent of USD 417's involvement was to pay tuition fees for students for the year ended June 30, 2011 and to participate in the board of directors by appointing a representative. The Flint Hills Special Education Cooperative is not considered to be a component unit of USD 417.



Morris County Unified School District No. 417  
Council Grove, Kansas

NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2011

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT)

Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement focus applied.

Statutory Basis of Accounting

The statutory basis of accounting, as used in the preparation of these statutory basis financial statements, is designed to demonstrate compliance with the cash basis and budget laws of the State of Kansas. Cash receipts are recognized when the cash balance of a fund is increased. Expenditures include disbursements, accounts payable, and encumbrances, with disbursements being adjusted for prior year's accounts payable and encumbrances. Encumbrances are commitments related to unperformed (executory) contracts for goods and services, and are usually evidenced by a purchase order or written contract. For an interfund transaction, a cash receipt is recorded in the fund receiving cash from another fund, and an expenditure would be charged in the fund from which the transfer is made.

The District as provided by Kansas Statute 75-1120a(c) has approved a resolution waiving the requirement for application of generally accepted accounting principles and allowing USD 417 to use the statutory basis of accounting.

Departure from Accounting Principles Generally Accepted in the United States of America

The basis of accounting described above results in a financial statement presentation which shows cash receipts, expenditures, cash and unencumbered cash balances, and expenditures compared to budget. Balance sheets that would have shown noncash assets such as receivables, inventories, and prepaid expense, liabilities such as deferred revenue and matured principal and interest payable and reservations of the fund balance are not presented. Under accounting principles generally accepted in the United States of America, encumbrances are only recognized as a reservation of fund balance; encumbrances outstanding at year end do not constitute expenditures or liabilities. Consequently, the expenditures as reported do not present the cost of goods and services received during the fiscal year in accordance with generally accepted accounting principles. Capital assets that account for the land, buildings, and equipment owned by the municipality are not presented in the financial statements. Also, long-term debt such as general or revenue obligation bonds, temporary notes, capital leases and compensated absences are not presented in the financial statements.

Reimbursements

A reimbursement is an expenditure or expense initially made in one fund, but properly attributable to another fund. For example, it is common for the general fund to pay a vendor's bill and have portions of it reimbursed by other funds. In accounting for such reimbursements, USD 417 records an expenditure in the reimbursing fund, and a reduction of expenditure in the reimbursed fund.

NOTE 3 – STATUTORY PRESENTATION-COMPLIANCE WITH K.S.A. 72-6417 (d) AND K.S.A. 72-6434 (d)

K.S.A. 72-6417 (d) and K.S.A. 72-6434 (d) require the school district to record any payment of general state aid that is due to be paid during the month of June and is paid to the school district after June 30, as a receipt for the school year ending on June 30. The amounts of general State aid paid to USD 417 in July of the subsequent fiscal year and recorded as June revenue are as follows:

<u>Fund</u>	<u>Year Ended June 30, 2011</u>	<u>Year Ended June 30, 2010</u>
General	\$ 318,643	\$458,976
Supplemental General	268,817	92,671
KPERS Retirement	0	194,459

Morris County Unified School District No. 417  
Council Grove, Kansas

NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2011

NOTE 4 - DEFINED BENEFIT PENSION PLAN

Plan Description - USD 417, Council Grove, Kansas participates in the Kansas Public Employees Retirement System (KPERS), a cost-sharing multiple-employer defined benefit pension plan as provided by K.S.A. 74-4901, et seq. KPERS provides retirement benefits, life insurance, disability income benefits, and death benefits. Kansas law establishes and amends benefit provisions. KPERS issues a publicly available financial report that includes financial statements and required supplementary information. This report may be obtained by writing to KPERS (611 S. Kansas Suite 100; Topeka, KS 66603-3803) or by calling 1-888-275-5737.

Funding Policy - K.S.A. 74-4919 establishes the KPERS member-employee contribution rate at 4% or 6% of covered salary, depending on eligibility date. Member - employees' contributions are withheld by their employer and paid to KPERS according to the provisions of section 414(h) of the Internal Revenue Code. The State of Kansas is required to contribute the remaining amount necessary to achieve the actuarially determined contribution rate. The State of Kansas contributed 9.17% of covered payroll for the period July 1, 2010 to June 30, 2011 and it will contribute 9.77% for the period of July 1, 2011 to June 30, 2012. These contribution requirements are established by KPERS and are periodically revised. Kansas' contributions to KPERS for school municipality employees for the years ending June 30, 2011, 2010, and 2009 were \$253,834,044, \$248,468,186, and \$242,277,363, respectively equal to the statutory required contributions for each year.

Beginning with the fiscal year ended June 30, 2005, the State began remitting to each School District the State's KPERS contribution for their District. The School Districts then remit this contribution to KPERS. USD 417 accounted for this activity through the KPERS Retirement Fund.

NOTE 5 - BUDGETARY INFORMATION

Kansas statutes require that an annual operating budget be legally adopted for the general fund, special revenue funds (unless specifically exempted by statute), and debt service funds. Although directory rather than mandatory, the statutes provide for the following sequence and timetable in the adoption of the legal annual operating budget:

1. Preparation of the budget for the succeeding eighteen month period on or before August 1st.
2. Publication in local newspaper of the proposed budget and notice of public hearing on the budget on or before August 5th.
3. Public hearing on or before August 15th, but at least ten days after publication of notice of hearing.
4. Adoption of the final budget on or before August 25th.

After the listed procedures have been followed, the Kansas State Board of Education computes what the maximum legal general fund budget of operating expenses can be. For the fiscal year ended June 30, 2011, the State calculation of the legal maximum general fund budget was \$5,331,007 and the Supplemental General Fund Budget \$1,763,000. In accordance with Kansas statutes, a district will be penalized state aid equal to the amount expended in excess of the computed statutory limitation plus any qualifying budget credits. The District was within its maximum legal general fund budget and its supplemental general fund budget authority for the fiscal year ended June 30, 2011.

The statutes allow for the governing body to increase the originally adopted budget for previously unbudgeted increases in revenue other than ad valorem property taxes. To do this, a notice of public hearing to amend the budget must be published in the local newspaper. At least ten days after publication, the hearing may be held, and the governing body may amend the budget at that time. The District did not have any budget amendments for the fiscal year ended June 30, 2011.

The statutes permit transferring budgeted amounts between line items within an individual fund. However, such statutes prohibit expenditures in excess of the total amount of the adopted budget of expenditures of individual funds. Budget comparison statements are presented for each fund showing actual receipts and expenditures compared to legally budgeted receipts and expenditures.

Morris County Unified School District No. 417  
Council Grove, Kansas

NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2011

NOTE 5 - BUDGETARY INFORMATION (CONT)

All legal annual operating budgets are prepared using the statutory basis of accounting, in which revenues are recognized when cash is received and expenditures include disbursements, accounts payable, and encumbrances, with disbursements being adjusted for prior year's accounts payable and encumbrances. Encumbrances are commitments by the municipality for future payments and are supported by a document evidencing the commitment, such as a purchase order or contract. Any unused budgeted expenditure authority lapses at year-end.

A legal operating budget is not required for trust and agency funds, and the following special revenue funds: Textbook Rental, Contingency Reserve, Federal & State Grant Funds, School Improvement Fund and District Activity Funds.

Spending in funds, which are not subject to the legal annual operating budget requirement, is controlled by federal regulations, other statutes, or by use of internal spending limits established by the governing body.

Statement 2 presents budgetary comparison of the actual data on the budgetary basis, which includes encumbrances and transfers with the legally adopted budget. Because of tax levying dates, it is necessary that budget expenditures and revenues are estimated for an additional six-month period on its budget, which has not been included on Statement 2.

Property taxes are levied by the Kansas Counties in which the School District resides on November 1 and are payable in two installments on December 20 and May 10 of the subsequent year. The Counties collect and distribute in the succeeding year all property taxes collected for the District. Therefore, taxes levied for the District on November 1, 2011 will be distributed to the District by the County during 2012.

NOTE 6 - COMPENSATED ABSENCES AND FRINGE BENEFITS FOR FULL TIME EMPLOYEES

U.S.D. 417 maintains an Internal Revenue Code Section 125 cafeteria plan. The amount of salary to be reduced shall not exceed the sum authorized by the Internal Revenue Code. Employees may select any combination of health insurance, salary protection insurance, cancer insurance, unreimbursed medical expenses, and daycare expenses as nontaxable fringe benefits.

U.S.D. 417 contributes an amount equal to the annual premium of a single health insurance plan for certified instructional personnel. For all other employees, the benefit is prorated. For those employed prior to the 1993-94 school year, a cash option was available, allowing employees to receive the health benefit in cash less applicable withholding taxes and U.S.D. 417's obligation for social security, medicare, and unemployment. Current employees who drop their participation in the health plan will not be eligible for the cash option.

U.S.D. 417's personnel earn ten days of sick leave per contract year. Any employee who completes a year with more than sixty days of accrued sick leave will be reimbursed at twenty dollars per day for each day in excess of sixty days. Upon separation of service, any unused sick leave is lost. Instructional personnel may take two days of personal leave per year and may accumulate up to six personal days. Provisions provide for legal leave, emergency leave, sabbatical leave, leave without pay, and professional leave. These may or may not result in a deduction in pay depending on determinations from the school board. The District also has adopted a Family Medical Leave policy.

Vacation pay is earned by twelve month employees as follows: first contract year = 5 days; second to tenth contract year = 10 days; eleventh to fifteenth contract year = 15 days; and sixteenth contract year and beyond = 20 days. No more than five vacations days may be carried over each year. A grandfather provision allows some employees a greater carryover. This carryover equals the amount of vacation time accumulated as of June 30, 1999 plus five days. No estimate has been made of the total amounts of accumulated leave nor has any amount been reported in the financial statements.

Morris County Unified School District No. 417  
Council Grove, Kansas

NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2011

NOTE 7 - OTHER POST EMPLOYMENT BENEFITS

The District provides an early retirement program as described in the District's negotiated agreement with certified personnel. As a measure of appreciation for their services, the district offers an early retirement cash benefit. This benefit is based on the retiree's salary at the time of retirement times the combined factors of age, years of experience in USD 417, and column placement on the salary schedule. The age factor provides a 5-15% benefit; the years in the district factor add between 4-15%; and the column placement factor results in a 1-5% benefit. Employees must submit a written request to the USD 417 Board of Education prior to April 1 preceding the anticipated retirement date. To correspond with KPERS retirement dates, teachers may elect June 1, July 1 or August 1 as the retirement date. The cash benefit is paid on the retirement date into an employer sponsored 403(b) account.

The district also provides health insurance to early retirees. Those eligible include retirees less than age 60 with 10 years of continuous employment in the district and KPERS qualified 85 points for retirement. The monthly contribution amount is limited to the amount contributed to a currently employed certified teacher for membership in the district health plan. The maximum benefit is for three years. Retirees between the ages of 60 and 64 with 5 years of continuous employment in the district receive a monthly contribution amount equal to the amount contributed to a currently employed certified teacher for membership in the district health plan until the retiree reaches age 65.

The District finances these benefits on a pay-as-you-go basis. Costs associated with these benefits for the fiscal years ended June 30, 2009, 2010, and 2011 were \$70,654, \$44,010, and \$115,938, respectively, for the retiree participants. These expenditures have been included as part of the General Fund. An estimate has not been made of the total amount of post employment benefit liability of the District or reported in the financial statements.

Under the Consolidated Omnibus Budget Reconciliation Act (COBRA), the District makes health care benefits available to eligible former employees and eligible dependents. Certain requirements are outlined by the federal government for this coverage. The premium is paid in full by the insured. There is no cost to the district under this program.

NOTE 8 - TRANSFERS

Transfers between budgetary funds are for the purpose of shifting resources from the fund legally required to receive the revenue to the fund authorized to expend the revenues. Operating transfers during the fiscal year ended June 30, 2011 consisted of the following:

<u>Transfer From</u>	<u>Transfer To</u>	<u>Statutory Authority</u>	<u>Amount</u>
General	Special Education	72-6428	\$580,946
General	At Risk K-12	72-6428	510,000
General	Contingency Reserve	72-6428	20,000
General	Capital Outlay	72-6428	37,561
General	At Risk 4 yr old	72-6428	25,000
General	Bilingual Education	72-6428	31,050
Supplemental General	Extraordinary School Program	72-6433	7,000
Supplemental General	Special Education	72-6433	200,000
Supplemental General	Professional Development	72-6433	40,000
Supplemental General	Vocational Education	72-6433	155,527
Supplemental General	Food Service	72-6433	100,000
Supplemental General	Driver Training	72-6433	5,000
Supplemental General	Textbook & Student Materials	72-6433	40,000
Supplemental General	At Risk 4 yr old	72-6433	7,800

Morris County Unified School District No. 417  
Council Grove, Kansas

NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2011

NOTE 9 - DEPOSITS AND INVESTMENTS

K.S.A. 9-1401 establishes the depositories that may be used by the Government. The statute requires banks eligible to hold the Government's funds have a main or branch bank in the county in which the Government is located, or in an adjoining county if such institution has been designated as an official depository, and the banks provide an acceptable rate or return on funds. In addition, K.S.A. 9-1402 requires the banks to pledge securities for deposits in excess of FDIC coverage. The Government has no other policies that would further limit interest rate risk.

K.S.A. 12-1675 limits the Government's investment of idle funds to time deposits, open accounts, and certificates of deposit with allowable financial institutions; U.S. government securities; temporary notes; no-fund warrants; repurchase agreements; and the Kansas Municipal Investment Pool. The Government has no investment policy that would further limit its investment choices.

Concentration of credit risk -- State statutes place no limit on the amount the Government may invest in any one issuer as long as the investments are adequately secured under K.S.A. 9-1402 and 9-1405.

Custodial credit risk -- deposits. -- Custodial credit risk is the risk that in the event of a bank failure, the Government's deposits may not be returned to it. State statutes require the Government's deposits in financial institutions to be entirely covered by federal depository insurance or by collateral held under a joint custody receipt issued by a bank within the State of Kansas, the Federal Reserve Bank of Kansas City, or the Federal Home Loan Bank of Topeka, except during designated "peak periods" when required coverage is 50%. USD 417 has not designated peak periods.

At June 30, 2011, USD 417's carrying amount of deposits was \$5,050,234 and the bank balance was \$5,353,214. The bank balance was held by four banks resulting in a concentration of credit risk. Of the bank balance, \$839,345 was covered by federal depository insurance and \$4,513,869 was collateralized with securities held by the pledging financial institutions' agents in USD 417's name. All deposits were legally secured at June 30, 2011.

Custodial credit risk-investments-- For an investment, this is the risk that, in the event of the failure of the issuer or counter party, the Government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside part. State statutes require investments to be adequately secured.

NOTE 10 -- RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destructions of assets; errors and omissions, injuries to employees; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. Insurance claims have not exceeded commercial coverage for the past three years. There were no significant reductions in insurance coverage from coverage in prior years.

Morris County Unified School District No. 417  
Council Grove, Kansas

NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2011

NOTE 11- LONG-TERM DEBT

On October 9, 2009, \$500,000 of General Obligation Bonds Series 2008-A were sold at an interest rate of 2.75% and maturity date of April 1, 2009. On November 12, 2009, \$8,760,000 of General Obligation Bonds Series 2008-B were sold at interest rates of 4.65% to 6% for a net interest cost of 4.90% over the life of the bonds. The Series 2008-A bond principal of \$500,000 and interest of \$1,833 were paid off with proceeds of the Series 2008-B Bonds. The remainder of the bond proceeds is to be used to make improvements to the existing Council Grove High School, to pay interest on the bonds during construction, and to pay for the cost of issuance of the bonds. The first interest payment for the Series 2008-B was made on March 1, 2009 and the final payment of principal and interest is scheduled on September 1, 2028. The payments are made from the Bond & Interest Fund.

Changes in long-term liabilities for the District for the year ended June 30, 2011, were as follows:

Issue	Interest Rates	Date of Issue	Amount of Issue	Date of Final Maturity	Balance Beginning of Year	Additions	Reductions/ Payments	Net Change	Balance End of Year	Interest Paid
General Obligation Bonds:										
Series 2008-B	4.65-6%	11/12/2009	8,760,000	9/1/28	<u>8,655,000</u>	<u>0</u>	<u>100,000</u>	<u>0</u>	<u>8,555,000</u>	<u>436,693</u>
Total long-term debt					<u>\$ 8,655,000</u>	<u>\$ 0</u>	<u>\$ 100,000</u>	<u>\$ 0</u>	<u>\$ 8,555,000</u>	<u>\$ 436,693</u>

Current maturities of long-term debt and interest for the next five years and in five year increments through maturity are as follows:

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017-2021</u>	<u>2022-2026</u>	<u>2027-2029</u>	<u>Total</u>
PRINCIPAL									
GO Bonds	\$ 130,000	\$ 170,000	\$ 195,000	\$ 220,000	\$ 250,000	\$ 1,850,000	\$ 3,090,000	\$ 2,650,000	\$ 8,555,000
INTEREST									
GO Bonds	<u>430,368</u>	<u>422,117</u>	<u>412,080</u>	<u>400,668</u>	<u>387,742</u>	<u>1,668,175</u>	<u>1,057,919</u>	<u>206,250</u>	<u>4,985,318</u>
Total Principal and Interest	<u>\$ 560,368</u>	<u>\$ 592,117</u>	<u>\$ 607,080</u>	<u>\$ 620,668</u>	<u>\$ 637,742</u>	<u>\$ 3,518,175</u>	<u>\$ 4,147,919</u>	<u>\$ 2,856,250</u>	<u>\$ 13,540,318</u>

Morris County Unified School District No. 417  
Council Grove, Kansas

NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2011

NOTE 12- 2010 FINANCIAL DATA

The amounts shown for 2010 in the accompanying financial statements are included, where practicable, only to provide a basis for comparison with 2011, and are not intended to present all information necessary for a fair presentation.

NOTE 13 – CAPITAL PROJECT

The District is in the process of finalizing improvements and additions to the existing Council Grove High School. Construction, architectural and engineering cash disbursements and accounts payable from inception to June 30, 2011 on the high school addition are \$7,423,036, including a short term bond principle & interest payment of \$501,833. Additional costs of the project are expected to be \$46,230. The actual cost of the project was significantly less than expected due to the recession and low construction bids. Since the District has a surplus of original bond proceeds not needed to finance the cost of improvements to the High School, a resolution was passed on October 10, 2011 creating a Redemption Fund. \$1,940,000 of surplus bond proceeds has been transferred to this Redemption Fund for the purpose of retiring a portion of the outstanding bonds early as allowable or to pay a portion of the debt service requirements as they come due. The District also transferred \$110,000 of the surplus to the Bond & Interest Fund to be used for scheduled bond debt service payments.

NOTE 14 - COMPLIANCE WITH KANSAS STATUTES

References made herein to the statutes are not intended as interpretations of law, but are offered for consideration of the Director of Accounts and Reports, Department of Education, and interpretation by the County Attorney and legal representatives of the municipality.

Sealed bidding procedures were not strictly followed on all applicable purchases in accordance with K.S.A. 72-6760.

Management is not aware of any other statutory violations for the period covered by this audit.

NOTE 15 – CONTINGENCIES

The District receives significant financial assistance from numerous federal and state governmental agencies in the form of grants and state pass through aid. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. The District's prior year audit contained a questioned cost in a Federal program in the amount of \$39,032. The pass through entity, the Kansas State Department of Education, has not yet resolved this issue but it is expected that this will result in a liability to the General Fund. No provision has been reported in these financial statements. In management's opinion, any other disallowed claims will not have a material effect on the financial statements of the District at June 30, 2011.

A complaint has been filed against the District with the U.S. Department of Education, Office of Civil Rights concerning access to District facilities for persons with disabilities. The District was able to resolve this issue by a resolution agreement which includes requirements for modification of certain facilities in the District. Management estimates the total cost of modifications will not exceed \$14,000. No provision for these costs has been reported in the financial statements.

Morris County Unified School District No. 417  
Council Grove, Kansas

Schedule of Expenditures of Federal Awards  
For the year ended June 30, 2011

Federal Grantor/Pass-through Grantor Program or Cluster Title	CFDA Number	Federal Expenditures
Department of Education/Pass Through State of Kansas		
ARRA-State Fiscal Stabilization Fund	84.394	\$ 98,352
Title I	84.010	128,423
Program Improvement (1003a) grant	84.010	20,776
Title II-A - Teacher Quality	84.367	43,808
Title II-D - Technology	84.318	435
Education JOBS	84.410	172,213
Department of Education-Pass Through Southeast Ks Ed Center		
Career Tech - Perkins	84.048	4,176
Department of Education-Direct		
Small and Rural School Grant (REAP)	84.358A	9,868
Department of Agriculture/Pass Through State of Kansas		
School Breakfast	10.553	30,639
Food Service	10.555	<u>162,571</u>
Total Federal Expenditures		<u>\$ 671,261</u>

See accompanying notes to schedule of expenditures of Federal Awards.



Morris County Unified School District No. 417  
Council Grove, Kansas

Notes to the Schedule of Expenditures of Federal Awards  
For the year ended June 30, 2011

NOTE A – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of Morris County USD No. 417 under programs of the federal government for the year ended June 30, 2011. The information in the Schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Because the Schedule presents only a selected portion of the operations of USD No. 417, it is not intended to and does not present the cash receipts, cash disbursements and unencumbered cash of USD No. 417.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the statutory basis of accounting, which demonstrates compliance with the cash basis and budget laws of the State of Kansas. Expenditures include disbursements, accounts payable and encumbrances, with disbursements being adjusted for prior year's accounts payable and encumbrances. Encumbrances are commitments related to unperformed (executory) contracts for goods and services, and are usually evidenced by a purchase order or written contract. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

NOTE C – PROGRAM COSTS/MATCHING CONTRIBUTIONS

The amounts shown as current year expenses represent only the federal grant portion of the programs costs. Entire program costs, including USD 417's portion may be more than shown. District records should be consulted to determine amounts expended or matched from non-federal sources.

NOTE D – SMALL RURAL SCHOOLS ACHIEVEMENT

As allowed by federal regulations, USD 417 expended for Title I activities, funds from Small Rural Schools Achievement CFDA 84.358A \$9,868, Education Technology CFDA 84.318 \$435, and Improving Teacher Quality CFDA 84.367 \$43,808.

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND  
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS

To the Board of Education  
Morris County USD No. 417  
Council Grove, KS 66846

We have audited the statutory basis financial statements of Morris County USD No. 417, Council Grove, Kansas, as of and for the year ended June 30, 2010, which collectively comprise USD 417's financial statements and have issued our report thereon dated January 18, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered USD 417's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of USD 417's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the USD 417's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, and material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as 2011-1 and 2011-2 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether USD 417's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying schedule of findings and questioned costs as items 2010-1 through 2010-4.

We noted certain matters that we reported to management of USD 417, in a separate letter dated January 18, 2012.

USD 417's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit USD 417's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, USD 417 Board of Education, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Aldrich & Company, LLC*

Aldrich & Company LLC  
Certified Public Accountants  
Council Grove, Kansas  
January 18, 2012

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL  
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Board of Education  
Morris County USD No. 417  
Council Grove, KS 66846

Compliance

We have audited the compliance of Morris County USD No. 417, Council Grove, Kansas, with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on USD No. 417's major federal programs for the year ended June 30, 2011. USD 417's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of USD 417's management. Our responsibility is to express an opinion on USD 417's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about USD 417's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of USD 417's compliance with those requirements.

In our opinion, USD 417, complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

Internal Control Over Compliance

Management of USD 417, is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered USD 417's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of USD 417's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2010-3 and 2010-4 to be material weaknesses.

USD 417's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit USD 417's responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of management, USD 417 Board of Education, others within the entity, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Aldrich & Company, LLC*

Aldrich & Company LLC  
Council Grove, Kansas  
January 18, 2012

Schedule of Findings and Questioned Costs  
Morris County USD No. 417  
Council Grove, Kansas

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2011

SUMMARY OF AUDITORS' RESULTS

1. The auditors' report expresses a qualified opinion on the financial statements of Morris County USD 417 Council Grove, Kansas.
2. Two significant deficiencies were disclosed during the audit of the financial statements are reported in the Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards. Both were reported as material weaknesses.
3. No instances of noncompliance material to the financial statements of USD 417 were disclosed during the audit.
4. Two significant deficiencies in internal control over major federal award programs disclosed during the audit are reported in the Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133. These conditions are all reported as material weaknesses.
5. The auditor's report on compliance for the major federal award programs for USD 417 expresses an unqualified opinion on all major federal programs.
6. Audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported in this Schedule.
7. The programs tested as a major program included: Education Jobs CFDA 84.410, and Child Nutrition Cluster-School Breakfast 10.553 and School Lunch 10.555.
8. The threshold for distinguishing Types A and B programs was \$300,000.
9. USD 417 was not determined to be a low-risk auditee.

FINDINGS—FINANCIAL STATEMENTS AUDIT

MATERIAL WEAKNESS

2011-1 Inadequate segregation of duties

*Condition:* There is an inadequate segregation of duties with respect to the financial recordkeeping functions. The district bookkeeper and attendance center secretaries are responsible for most recordkeeping and reconciliation activities.

*Criteria:* Internal controls should be in place to segregate duties, where possible, and to monitor the duties of the bookkeeper and attendance center secretaries.

*Cause:* The USD is very small with the primary focus of instruction and therefore, has few administrative personnel. *Effect:* Because of the lack of personnel, the bookkeeper or attendance center secretaries could cease performing some of their duties or become unable to perform them with the problem not being timely detected.

*Recommendation:* Procedures should be implemented to segregate duties, where possible, and to require the principals, superintendent, and board of education involvement in overseeing these assigned duties. .

*District response:* Administrative duties will be segregated as allowed by personnel and the principals, superintendent and board of education will continue to monitor duties performed by the bookkeeper and attendance center secretaries and contract for professional assistance if necessary.

MATERIAL WEAKNESS

2011-2 Signature stamp availability

*Condition:* A signature stamp is available for use by certain recordkeeping employees rather than solely being limited to those employees whose name appears on the stamp.

*Criteria:* Signature stamps should be secured such that it is available for use only by the employee whose name appears on it.

*Cause:* Signature stamps are not secured for use only by the employee whose name appears on it.

*Effect:* The signature stamp could be used inappropriately and not be timely detected.

*Recommendation:* Signature stamps should be secured and used only by those whose name appears on it.

*District response:* Signature stamps will be secured

Schedule of Findings and Questioned Costs  
Morris County USD No. 417  
Council Grove, Kansas

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2011

FINDINGS AND QUESTIONED COSTS-MAJOR FEDERAL AWARD PROGRAMS AUDIT

DEPARTMENT OF EDUCATION

2011-3 Education Jobs Fund CFDA 84.410; Grant period-Year ended June 30, 2011

*Material Weaknesses.* The material weaknesses at findings 2011-1 and 2011-2 also apply to this grant.

DEPARTMENT OF AGRICULTURE

2011-4 School Breakfast 10.553 and National School Lunch 10.555; Grant period-Year ended June 30, 2011

*Material Weaknesses.* The material weaknesses at findings 2011-1 and 2011-2 also apply to this grant.

Summary Schedule of Prior Audit Findings  
Morris County USD No. 417  
Council Grove, Kansas

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
YEAR ENDED JUNE 30, 2011

DEPARTMENT OF EDUCATION

State Fiscal Stabilization Fund—Education State Grants, Recovery Act CFDA 84.394; Grant period-Year ended June 30, 2010

2010-1 Inadequate segregation of duties

*Condition:* This was a material weakness in which there was inadequate segregation of duties with respect to the financial recordkeeping functions. The district bookkeeper and attendance center secretaries were responsible for most recordkeeping activities.

*Recommendation:* Auditor recommendations were to segregate duties, whenever possible, and to require the principals, superintendent, and board of education involvement in overseeing these assigned duties.

*Current Status:* Administrative duties have been segregated as allowed with available personnel, however, due to the small size of the district and limited availability of funds, segregation has not been possible in many positions. The principals, superintendent and board of education continue to monitor duties performed by the bookkeeper and attendance center secretaries.

2010-2 Ineffective supervision of federal compliance matters

*Condition:* The district had one management level employee in charge of determining compliance for the Title I ARRA funds.

*Recommendation:* Auditor recommendations were to implement procedures to ensure that one individual is not in charge of all aspects of program compliance.

*Current Status:* The District has assigned at least two personnel to matters regarding federal compliance issues and consults with their pass-through entity, the Kansas Department of Education, as necessary.

Title I CFDA 84.010 and Title I ARRA 84.389; Grant period-Year ended June 30, 2010

2010-3 *Material Weaknesses.* The material weaknesses at findings 2010-1 and 2010-2 also applied to this grant.

2010-4 Title I ARRA CFDA 84.389; Grant period-Year ended June 30, 2010

*Condition:* Title I ARRA funds (a one-time occurrence) were used to fund a full time teaching position, however, only part of the day was for the instruction of eligible children in the targeted program.

*Questioned cost:* \$39,032

*Recommendation:* Auditor recommendations were to implement procedures to ensure that, even with programs that were perceived to be a one time occurrence, one employee was not responsible for all compliance decisions.

*Current Status:* The district has contacted their pass through entity, the Kansas Department of Education, and they were told their information would be reviewed. To date, the district has not received any additional correspondence regarding these funds.